



Information About Investing Online

The Internet is a great tool for everyone, including investors due to the response speed, and the amount of information that is exchanged. Transactions are executed very quickly, with the click of a button or a few keystrokes. However, the Internet is also another avenue for fraud. Investors must use caution and common sense when using the Internet for securities activities.

The fact that information appears on the Internet does not render additional credibility to the information. Be especially wary if the identity of the source is not identified.

Over the Internet, investors can purchase securities of a company **directly** from the company. Treat the online transaction as you would a regular investment, and make sure that the securities are registered or exempted under both federal and state law.

Alternatively, investors can trade securities through online brokers. Study and understand the terms, conditions and costs of these services, before you use them. Brokers must be licensed, and must be registered with the Securities Exchange Commission.

Finally, be very careful with information you gather from a "chat room." It is in these "chat rooms" that persons posing as credible sources send out information to "pump" the price of a stock. Once the price of this stock has increased, they "dump," or sell their stock at a great profit. These are called "pump and dump schemes."

Steering Clear of Cyberfraud

The following steps, according to NASAA and the BBB, can help you keep on guard when you go online.

1. **Do not expect to get rich quick** – When evaluating an investment you have learned about online, exercise the same caution and deliberation that you would bring to any unfamiliar investment opportunity. The old rule “If it sounds too good to be true, it probably is” applies just as much to offers made in cyberspace as to those made through any other medium.
2. **Download and print a hard copy of any online solicitation you are considering** – This document may come in handy if problems develop later. Be sure to note the Internet address, date, and time of the offer.
3. **Do not assume that an online computer service polices its investment bulletin boards** – The vast majority of services take a “hands-off” approach to screening claims made in message postings, and even those that do minimal policing cannot possibly keep up with the millions of messages posted each month. Remember, too, that anyone can set up a web site or advertise online, usually without any check on the legitimacy of their claims.
4. **Never buy little known, thinly trade stocks strictly based on online hype** – Low-volume stocks are the most susceptible to manipulation since their price can be moved through relatively small strategic trades. Even if a hyped stock starts to move up, proceed with caution – this may just be part of the overall manipulation scheme.
5. **Be cautious about acting on the advice of individuals who hide their identity** – The use of aliases on computer bulletin boards is intended to protect privacy, but con artists also can exploit it. People online may not be whom they claim. What may seem to be two or more different people talking up a stock may actually be a single individual with a personal interest in driving up

its price through false information or baseless speculation. In addition, an impressive-looking website, can be the product of a laptop computer on the other side of the world, far from the jurisdiction of U.S. law enforcement regulators.

6. **Do not get taken in by claims of “inside information” such as pending news releases, contract announcements, and innovative new products** – In cyberspace, practically anyone can say anything. Despite the abundance of “hot tips” littered across bulletin boards and discussion groups, it is extremely unlikely that genuine insider information will be publicly broadcasted on an investment bulletin board.
7. **Be skeptical about claims that an online stock hyperster has personally checked out an investment** – One established tactic of investment schemers is to talk up companies, mining operations, and factories in remote corners of the country or the globe, where it can be impossible for the average investor to investigate or visit in person.
8. **Take the time to investigate outside sources of information on any investment you learn about online** – Check with a trusted financial adviser and always obtain written financial information, such as a prospectus, annual report, offering circular, and financial statements. Ask the online promoter where the firm is incorporated, and call the state’s Secretary of State or Commissioner of Securities to verify that information. Also, make sure that an investment opportunity and the person promoting it are properly registered with your state securities agency. In Hawaii, the agency to contact is the Business Registration Division of the Department of Commerce & Consumer Affairs. Check out the growing number of online sites that monitor online scams, including those of the North American Securities Administrators Association (www.nasaa.org), the Better Business Bureau (www.bbb.org), the National Fraud and Information Center (www.fraud.org), the Securities and Exchange Commission (www.sec.gov), and the National Association of Securities Dealers (www.nasdr.com).

9. **If you think you have been duped, do not be embarrassed about complaining** – Early action increases your chances of getting your money back and may prevent others from losing money. If you spot a potential online investment fraud, contact your state securities administrator (808) 586-2740, Better Business Bureau (808) 942-2355, or The Federal Trade Commission (415) 356-5270.

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